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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

September 10, 1993

Karol M. Sweitzer
Director
Federal Regulatory

Mr. William Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Rm 222
Washington, D.C. 20554

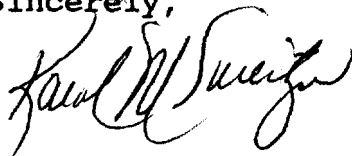
RE: EX PARTE CC Docket No. 92-296

Dear Mr. Caton:

Today Mr. Gene Klodginski and the undersigned of Southwestern Bell met with various offices at the Federal Communications Commission regarding the above referenced docket. Meetings were held with Ken Moran, Division Chief - Accounting and Audits and Fatina Franklin, Depreciation Rates Branch Chief; Rudolfo Baca, Legal Advisor to Chairman Quello; Jeffery Hoagg, Special Advisor to Commissioner Barrett; and Linda Oliver, Legal Advisor to Commissioner Duggan. The attached handout was used in the discussions. Please enter it into the record.

Questions regarding these meetings or the handout may be referred to me.

Sincerely,



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**FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY**

**EX PARTE ON
SIMPLIFICATION OF DEPRECIATION
PRESCRIPTION**

ALTERNATIVE SOLUTIONS

**SOUTHWESTERN BELL TELEPHONE COMPANY
SEPTEMBER 10, 1993**

BACKGROUND

OPTION D PROVIDES MAXIMUM LONG TERM SIMPLIFICATION

- SWBT FAVORS OPTION D AS THE BEST SOLUTION TO DEPRECIATION SIMPLIFICATION.
- OPTION D PROVIDES:
 1. FLEXIBILITY IN A COMPETITIVE ENVIRONMENT.
 2. ADEQUATE SAFEGUARDS AND OVERSIGHTS:
 - A. GAAP REQUIREMENTS
 - B. FCC REPORTING
 - C. SEC GUIDELINES
 - D. AUDIT PROCESS (I.E., INTERNAL AND EXTERNAL AUDITS)
 3. SUFFICIENT DATA TO SATISFY FCC AND STATE COMMISSION OBJECTIVES.
 4. CONTINUATION OF THE COMMISSION'S REVIEW OF PROPOSED RATES.

OPTION B WITH MODIFICATIONS IS A VIABLE ALTERNATIVE TO OPTION A

- SWBT FAVORS OPTION B OVER OPTION A.
- OPTION B PROVIDES GREATER FLEXIBILITY, AN ESSENTIAL ELEMENT FOR THE TRANSITION OF THE INDUSTRY TOWARD A COMPETITIVE ENVIRONMENT.

THE AMOUNT OF SIMPLIFICATION UNDER OPTION A IS QUESTIONABLE

- RANGES ESTABLISHED USING ONLY LEC "INDUSTRY-WIDE DATA" (AS SUGGESTED IN THE NPRM), FAILS TO RECOGNIZE IMPLICATIONS OF THE COMPETITIVE ENVIRONMENT.
- SIMPLIFICATION IS NOT ACHIEVED IF ALL ACCOUNTS ARE NOT SUBJECT TO THE SAME DEPRECIATION METHODOLOGIES.
- COMMISSION IS BURDENED WITH THE RESPONSIBILITY OF COLLECTING DATA AND SETTING RANGES.
- OPTION A PROVIDES THE LEAST FLEXIBILITY AND THEREFORE IS NOT APPROPRIATE FOR THE COMPETITIVE ENVIRONMENT.

OPTION A REQUIRES EXTENSIVE MODIFICATION IN ORDER FOR SWBT TO SUPPORT IT AS A REASONABLE ALTERNATIVE

MODIFICATIONS REQUIRED FOR OPTION A TO BE VIEWED AS A VIABLE ALTERNATIVE FOR SIMPLIFICATION

1. PARAMETER RANGES MUST BE SUFFICIENTLY BROAD

- RANGES MUST BE EXPANDED TO AT LEAST 1 STANDARD DEVIATION.
- RANGES SHOULD RECOGNIZE ASSET LIVES OF OTHER COMMUNICATION PROVIDERS (E.G., AT&T, CATV COMPANIES, ETC.) IN A COMPETITIVE ENVIRONMENT.

2. PARAMETER RANGES MUST BE ESTABLISHED FOR ALL DEPRECIABLE ACCOUNTS

- ALL ACCOUNTS MUST BE SUBJECT TO THE SAME DEPRECIATION METHODOLOGIES.
- IMPLEMENTATION OF PARAMETER RANGES MUST BE SIMULTANEOUS FOR ALL ACCOUNTS (I.E., NOT IMPLEMENTED IN MEASURED STEPS AS SUGGESTED BY THE NPRM).

3. ADMINISTRATIVE FILING REQUIREMENTS MUST BE MINIMAL

- ELIMINATE THREE-YEAR STUDIES FOR THE SMALL ACCOUNTS.
- STUDIES WOULD BE SUBMITTED FOR LARGE ACCOUNTS ONLY WHEN A PARAMETER CHANGES BY 10% OR GREATER.
- DEPRECIATION SIMPLIFICATION SHOULD REDUCE LENGTHY AND BURDENSOME FILING REQUIREMENTS.

4. SWBT MUST HAVE THE ABILITY TO CHANGE PARAMETERS AND RESULTING RATES ANNUALLY

- TECHNOLOGICAL ADVANCEMENTS NECESSITATE MORE FLEXIBILITY THAN CURRENTLY AVAILABLE IN THE THREE YEAR PRESCRIPTION CYCLE.
- COMPETITIVE ENVIRONMENT NECESSITATES THAT LEC'S HAVE THE FREEDOM TO SELECT ANY PARAMETER WITHIN THE RANGE.
- NEW DEPRECIATION RATES COULD BE SUBMITTED WITH THE MIDYEAR TARIFF FILING.

5. PROVISIONS MUST BE AVAILABLE TO ALLOW FULL REVIEW OF PARAMETER RANGES

- THE RAPID PACE OF TECHNOLOGICAL ADVANCEMENTS NECESSITATES FLEXIBILITY FOR FREQUENT REVIEW OF PARAMETER RANGES.

6. UNDER OPTION A, SWBT WOULD CONTINUE TO HAVE THE RIGHT TO RECOVER ANY IDENTIFIED RESERVE IMBALANCES